

FISCAL NOTE

Bill #: HB0124

Title: K-12 health insurance program

Primary Sponsor: Facey, T

Status: As Amended by the House Education Committee

Sponsor signature	Date	David Ewer, Budget Director	Date
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Fiscal Summary

	<u>FY 2006</u> <u>Difference</u>	<u>FY 2007</u> <u>Difference</u>
Expenditures:		
General Fund	\$0	\$45,600,000
Proprietary	\$2,000,000	\$119,074,000
Revenue:		
General Fund	\$0	\$0
Proprietary	\$2,000,000	\$148,074,000
Net Impact on General Fund Balance:	\$0	(\$45,600,000)

<input checked="" type="checkbox"/> Significant Local Gov. Impact	<input checked="" type="checkbox"/> Technical Concerns
<input type="checkbox"/> Included in the Executive Budget	<input checked="" type="checkbox"/> Significant Long-Term Impacts
<input type="checkbox"/> Dedicated Revenue Form Attached	<input type="checkbox"/> Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

K12 Statewide Health Insurance Program (K12-SHIP)

1. There are about 230 independent school system plans and 18,600 participants in FY 2005.
2. The bill allows a school district board or educational coop to elect participation in the K-12 SHIP. Section 4 (1) states that “...after January 15, 2006, or any subsequent time as allowed by the board.”
3. The employer’s elective participation decision may be revoked by an employer upon written notice filed to the K-12 SHIP Board. The written notice must be filed with the Board on or before June 1 at least one year before the employer actually leaves the K-12 SHIP.
4. K-12 SHIP estimates that 19,000 employees are eligible to enroll. HB 124 contains a statutory general fund appropriation that would be equal to \$45.6 million (19,000 employees * 12 months * \$200) for FY 2007. (See technical note number 2 regarding inability to calculate some costs.)
5. K-12 SHIP estimates that 18,000 employees and 2,100 retirees will participate. K-12 SHIP anticipates that \$124,074,000 in premiums to include the state incentive credit, employer and employee contribution, will be collected in the first year of operation.
6. Administrative costs are estimated at 5 to 7 percent. K-12 SHIP anticipates there will be about \$5 million more in premium collections than claims paid during the first year because of lag in claims.

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7. The health insurance plan is not subject to the state insurance premium tax because it is a health services corporation. The plan is also excluded from the state's generic program fee.
8. The plan has chosen to be subject to the charges of the Montana Comprehensive Health Association and the regulation of the State Auditor. These additional administrative costs add up to 2 percent to the plan.

Department of Administration (DOA)

9. The K-12 SHIP is administratively attached to the Department of Administration (DOA), but will be an independent office. The DOA will provide payroll functions and human resource services to assist the new program in its start-up phase. Personnel costs and ongoing payroll processing costs are estimated at approximately \$25,000 each year and require the addition of a 0.5 FTE, and would require an office set-up in year one.
10. It is assumed that DOA would have no responsibility for accounting, budgeting, purchasing, IT support, or other administrative or managerial functions for the K-12 SHIP, other than the human resource services and payroll stated above.
11. It is assumed that the K-12 SHIP would have complete responsibility for repayment of any indebtedness incurred for start-up or future operating costs.
12. There are potentially two models for operation of the plan in carrying out the duties required of the board:
 - The first model would be for the board to hire contract staff who would then arrange for all of the duties and services required for operation of the K-12 SHIP plan. This would include items such as consulting services, actuarial services, eligibility and enrollment, communication, development and dissemination of educational and enrollment materials, conducting enrollment and plan election functions, employee and employer education, administration and adjudication of claims, medical review and management contracts, audit and accounting services, and development and maintenance of informational databases and interfaces. Many of these services could be secured through contracting with third-party insurance administrators.
 - The second model would be for the board to hire staff who would perform some of the duties in-house and contract for the remaining duties, some of which are outlined above.

Office of Public Instruction (OPI)

13. HB 124 (Section 5) requires the K-12 SHIP board to establish electronic data collection and transfer systems that are integrated with the data collection systems used by the Office of Public Instruction (OPI), the Teachers' Retirement System, the Public Employees Retirement System, the Department of Labor and Industry, and school districts.
14. OPI anticipates that a significant portion of the \$2 million loan for implementing the K-12 SHIP and member benefit plans will be allocated for the membership enrollment and monthly reporting system.
15. OPI will not need additional resources to assist with the coordination of the data collection systems.

State Auditor (SAO)

16. The State Auditor's Office (SAO) estimates there will be no fiscal impact during the 2006-2007 biennium. The SAO may approach the next legislature for additional FTE due to increased workload related to the implementation of this bill.

Department of Commerce – Board of Investments (BOI)

17. The BOI is governed by the "prudent expert" principle and would therefore be required to ascertain the financial soundness of the overall plan prior to lending any funds.
18. HB 124 authorizes the Board of Investments (BOI) to loan \$2.0 million to the K-12 SHIP Board to implement the insurance program. The loan would be made through the Board's INTERCAP Program and could be made prior to July 1, 2005.
19. The BOI is also authorized to provide a \$24.0 million line of credit to establish an initial reserve. The line of credit would also be funded through the INTERCAP Program.

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20. The INTERCAP Program, administered by the BOI, sells tax-exempt bonds and loans the bond proceeds to eligible governments, including local and state agencies. The bonds are remarketed annually in March and the interest rates paid by INTERCAP borrowers are directly tied to the interest rates paid to bond holders. The current rate to borrowers is 2.7 percent, but the rate is anticipated to increase as the Federal Reserve Board continues to increase short-term interest rates.

21. The estimated debt service interest is \$55,000 in FY 2006 and \$660,000 in FY 2007.

Legislative Audit Division (LAD)

22. The Legislative Audit Division (LAD) estimates that the biennial audit will cost \$40,600 a biennium for compliance work. An additional \$26,100 is estimated for annual financial audit work.

FISCAL IMPACT:

	FY 2006 <u>Difference</u>	FY 2007 <u>Difference</u>
FTE	.50	.50

Expenditures:

Personal Services – DOA	\$27,976	\$50,000
Operating Expenses – 1 st year start-up	1,917,024	0
Operating Expenses – SHIP administration @ 5%	0	6,200,000
Claims	0	112,164,000
Debt Service –(BOI)	55,000	660,000
G.F. Transfer- State Incentive Credit Payment	<u>\$0</u>	<u>45,600,000</u>
TOTAL	\$2,000,000	\$164,674,000

Funding of Expenditures:

General Fund (01)	\$0	\$45,600,000
Proprietary (06)	<u>2,000,000</u>	<u>119,074,000</u>
TOTAL	\$2,000,000	\$164,674,000

Revenues:

General Fund (01)	\$0	\$0
Proprietary (06) INTERCAP Loans for Startup & Reserves	2,000,000	24,000,000
Proprietary (06) Insur. Premiums (incl. \$45.6 M State Incentive)	<u>0</u>	<u>124,074,000</u>
TOTAL	\$2,000,000	\$148,074,000

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	\$0	(\$45,600,000)
Proprietary (06)	\$0	\$29,000,000 ¹

¹ Includes \$24 million from INTERCAP Loan for reserves and \$5 million from Insurance Premium greater than claims paid.

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

Because a statewide health insurance program is spread over more users, insurance premium costs paid by employees and employers (local school districts) in many school districts should go down. School districts will have the opportunity to reduce local mills or increase expenditures in other areas of the district budget.

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LONG-RANGE IMPACTS:

1. According to Section 3, the incentive credit paid by the state must be increased annually by the rate of the consumer price index, U.S. city average, for all urban consumer items, for all items.
2. According to Section 7 (1)(l), the basic plan must be offered at the same level as the state incentive contribution. If the cost experience of the plan exceeds consumer price index inflation, the state contribution will not be sufficient. If this occurs either the benefits of the basic plan must be reduced or the state contribution must be increased.
3. There will be long-range fiscal impacts related to financial examinations referenced in section 7, part (g) and market conduct examinations referenced in Section 12, of the K-12 Statewide Health Insurance Program. The SAO has stated it is impossible to determine the costs of these examinations at this time. The K-12 Statewide Health Insurance Program will have to reimburse the SAO the cost of these exams.
4. K-12 estimates that 2,100 retirees will join the plan. The Governmental Accounting Standards Board (GASB) has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to post-employment healthcare and other non-pension benefits. GASB 45 becomes effective in FY 2008. These benefits are commonly referred to as other post-employment benefits, or OPEB. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The statement generally requires that state and local governmental employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. This could result in increased resources from the employee, and or, the employer, if the plan is not actuarially sound.

TECHNICAL NOTES:

1. Section 5 (13) states “*the board shall deposit in an account all reserve funds, premiums paid to the K-12 SHIP, and state-funded incentive credits for eligible employees, and the money deposited is statutorily appropriated.....*” The Legislative Auditor has recently suggested that certain existing INTERCAP loans to state agencies may constitute state debt and should be authorized by a two-thirds vote of the Legislature. Because the K-12 SHIP Board created in Section 6 (the borrower) is a state agency allocated to the Department of Administration for administrative purposes only, the INTERCAP loan authorized in this bill may constitute state debt and thus may require a two-thirds vote of the legislature.
2. Section 3 (1) states”.....\$200 a month fore each eligible employee, as defined in [section 2(7)(A)(I)], or \$200 a month plus an additional amount based on the number of students per classroom that is in excess of the maximum number of students allowed per classroom by the accreditation standards.....” The bill does not define how to calculate the “additional amount”.
3. The bill has been amended to permit school districts to opt out of the plan after they have elected to participate. This amendment prevents the BOI from accurately calculating the future revenues available from premiums available to repay the loan if participants elect to participate and then opt out. It may be difficult for the board to consider this a prudent loan given the uncertainty.
4. It is unclear from the window of eligibility language how long employers are given to enroll in the plan or if the board has the authority to change or extend an enrollment cut off time. If a specified date a district must enroll by is not stated then estimates of participants may be skewed.
5. HB 124 (Section 3) provides an incentive credit of \$200 a month for each employee eligible to enroll in the K-12 SHIP, paid by the state to the K-12 SHIP. The incentive credit is statutorily appropriated. It is not clear in the legislation which agency will be responsible for making the payment to the K-12 SHIP.

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6. The \$2 million startup loan from BOI by July 1, 2005. Section 9, sub (5); states that *“The loan authorized under (1) [the \$2M startup]may not be usedfor any other liabilities incurred prior to July 1, 2006.”* The intent is not to have the startup funds and reserve loan used for run-out claims or administrative costs incurred by plans coming into the new K-12 SHIP plan and incurred prior to the plans July 1, 2006 date. However, this statement sounds like the \$2 million startup costs cannot be used to pay administrative costs incurred between the effective date of this bill and July 1, 2006. This could be in conflict with the intent of the initial loan.
7. The K-12 SHIP plan is classified as a disability insurer, subject to regulation and oversight by the Commissioner of Insurance under Title 33. This is different from all other governmental self-funded pools under state law.
8. Section 8 (Biennial Audit of K-12 SHIP):
 - It is unclear as to whether section 8 is a financial, financial-compliance or a performance audit.
 - Section 8 provides for legislative auditor reliance on the work performed by the commissioner. Auditing standards on independence prohibit reliance on work performed by an executive agency.
 - Given technical note 2, the biennial audit is required to be performed by or at the discretion of the legislative auditor.
 - If section 8 is considered a financial-compliance audit, sections 12 and 18 are duplicative audit effort. The payment for audit services respective to audit work under sections 8 and 18 is not considered.